Fortem Capital Progressive Growth Fund

Quarterly Commentary – 31st December 2025

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Total Return	2025	Q4
UK 100	25.8%	6.9%
US 500	17.4%	2.6%
Europe 50	21.2%	5.1%
Japan 225	28.2%	12.2%
Hong Kong 50	33.5%	-3.3%
US 2000	12.8%	2.2%
Swiss 30	18.0%	9.6%
Global Equity	21.1%	3.1%
Global Bond	7.3%	1.1%
Commodities	11.1%	4.8%
PGF	**8.9%**	**1.9%**
AGF	**0.4%**	**-1.5%**
DGF	**-0.7%**	**-1.3%**
USI	**16.7%**	**2.4%**
ARF	**9.2%**	**1.8%**
CARF	**8.8%**	**1.7%**
LAF	**8.4%***	**4.4%**

Markets navigated an unstable backdrop incredibly well during 2025.

Trade tensions escalated materially in the first half as US tariff rates rose to levels not seen since the 1930s, triggering a sharp but ultimately short-lived risk-off episode in April. At the same time, geopolitical stress intensified, and long-dated yields remained stubbornly high, reducing the transmission mechanism of looser monetary policy. These headwinds weighed heavily on sentiment early in the year but proved insufficient to derail broader risk appetite.

By mid-year, markets had pivoted decisively toward policy support and broad optimism. Fiscal expansion and the prospect of easier monetary conditions, combined with renewed enthusiasm around artificial intelligence, drove a synchronised re-rating across equities, credit and commodities. Emerging markets led equity performance, while developed markets recovered from early losses to post strong full-year gains.

The strongest signal of investor behaviour came through real assets. Precious metals significantly outperformed, and commodity returns remained positive despite falling energy prices. Fixed income also generated positive returns as inflation fears moderated and currency effects supported non-US investors, making 2025 the first year since the pandemic in which all major asset classes posted gains; an 'everything rally'.

By year-end, investor positioning appeared increasingly predicated on the assumption that fiscal impulse will deliver the growth outcomes now embedded in market prices. Large deficits, sustained public investment and continued AI-related capex are widely treated as sufficient offsets to possible tighter financial conditions, and this optimism is reflected in elevated valuations and compressed risk premia across asset classes; positioning is highly stretched – over 2/3 of the individual country equity indices comprising the global benchmark are at record highs. What is less clearly priced is the cost of delivering that growth: higher funding costs, constrained monetary support, and the risk that investment proves lower-return or slower-to-realise than expected. As a result, markets enter the next phase with expectations anchored to an undying fiscal impulse. The narrative restates what is already priced, and ignores any risks which are inconvenient to it.

The Fund returned 1.9% over the quarter and 8.9% over the course of 2025.

Income

The Fund is fully collateralised by high-grade sovereign debt. As such, its liquidity profile extends to the liquidity profile of the Income portfolio. A key pricing input for the Beta portfolio is rates; when rates are high, the level of return available from the Beta portfolio for a given level of risk is similarly higher than when they are low, all else being equal. The current rates environment is continuing to allow the Fund to incept positions with defined returns above the Fund's return target, without taking on more risk than is and has always been stipulated at outset. This has also translated to a period of embedded returns significantly above the Fund's target return. As such, if we were to see a prolonged period of investment not calling, the levels locked in are far in excess of the target return.

Beta

The Beta Portfolio is the key driver of risk and return within the strategy. This portfolio has a number of investments linked to major developed equity market indices. The investments have strict rules around minimum protection levels such that they contractually earn defined positive returns even in significant drawdowns for the equities to which they are linked. Within the Beta portfolio currently, there are 59 investments with an average coupon of 9.0%.

The positive pricing environment has continued to allow the Fund to incept positions above the target return without changing the risk profile, and the Fund has returned to above target over 1 & 3 years, and to target over 5 years. If the pricing environment continues to be one that is fruitful for the Beta Portfolio, it would be expected that the returns would continue to be greater than target, but that over time this would mean the Fund achieves its target return, which is the aim of a defined return Fund and illustrates a consistency of risk objective through time.

The strong performance of equity markets also means that the Fund has significant levels of protection embedded with both protection of capital and return of ~ 40%.

Risk Overlay – Diversifier + Protection

In spite of the construct of the beta portfolio being carefully considered and designed to make money in all but the bleakest and to date unprecedented equity market scenarios, investors in these strategies will be aware that mark-to-market can be volatile, particularly during scenarios during which sizable equity falls are accompanied by spikes in implied volatility. It is for this reason that a risk overlay is employed that should not have a bearing on the final destination of the portfolio but should help on the journey of travel during the most volatile periods, as it has already shown itself to do multiple times.

The current make-up of the protection portfolio consists of S&P put options.

We often cite the Covid market crash as a litmus test for the portfolio. This is for good reason, as the beta portfolio sells longer dated equity volatility, and as such, in a sell-off in which volatilities across the term structure explode at the same time as the market itself sells off, those investments can take a double hit. Therefore, in spite of their embedded longer-term protection, they can in fact fall more than the market over short periods if left unchecked. The current portfolio with all parameters stressed as per the Covid crash shows -24%, significantly better than the market and better than the -27% that was realised during the event itself.

Outlook

The Fund behaved exactly as expected over the quarter and the year and has now achieved at or above its target return over 1, 3 & 5 years.

With regards to outlook, defined return funds allow for a slightly more prescriptive approach to be taken by investors, as at any point one is able to ask of a fund of this ilk:

1. What is the risk
2. What is one currently being paid to take that risk

With regard to the risk at any point in time. Within the Progressive Growth Fund, one takes credit risk to high-grade sovereigns, given that it is fully backed by sovereign debt. That currently extends to the governments of the US & UK. With regards to the beta portfolio, one is exposed to deep OTM puts on major developed indices, so the key is where the portfolio currently sits with regards to the strikes of those puts. Currently, there is plenty of protection as was alluded to in the beta section. So then what is one currently being paid to take on that risk? A significant amount:

Gross redemption yield of Beta portfolio:

Immediate spot moves	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Return (%)	27.0%	19.1%	12.1%	6.4%	4.4%	4.1%	4.1%	4.1%	4.1%
Time to Maturity (Av. yrs)	3.2	2.2	1.4	0.8	0.5	0.5	0.5	0.5	0.5
GRY to Maturity (Av. %)	**7.8%**	**8.1%**	**8.4%**	**8.5%**	**8.3%**	**8.2%**	**8.2%**	**8.2%**	**8.2%**

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